

ORIGINAL
FILE**United States Telephone Association**900 19th Street, N.W., Suite 800
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October 16, 1992

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Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARYRE: **Ex Parte Meeting**
CC Docket No. 92-101 /ORIGINAL
FILE

Dear Ms. Searcy,

On October 16, 1992, Sherry Herauf, Bill Johnston, Richard Lawson, Joe Mulieri, Jeff Olson and Frank McKennedy, representing the United States Telephone Association (USTA), met with Mary Brown, Chris Frentrup and Michael Mandigo of the Common Carrier Bureau to discuss the above-referenced docket. The attached written material responding to the ex parte material filed by AT&T on September 2, 1992 in this docket was distributed and discussed.

The original and a copy of this ex parte notice are being filed in the Office of the Secretary on October 16, 1992 and should be included in the public record of this proceeding.

Respectfully submitted,

A handwritten signature in cursive script that reads "Linda L. Kent".

Linda L. Kent
Associate General Counsel

Attachment

cc: Mary Brown
Chris Frentrup
Michael MandigoNo. of Copies rec'd 079
List A B C D E

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USTA Ex Parte in CC Docket No. 92-101
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

I. AT&T'S CALCULATION OF LEC SFAS 106 ACCRUALS

AT&T presented results that attempt to quantify the effects of using common actuarial assumptions.

- **However, examination of the results presented by AT&T reveals that AT&T has not properly applied its selected set of common assumptions to the individual LEC SFAS 106 valuations.**
 - **The Commission cannot rely on AT&T's attempt to model the individual LECs' results. Individual LEC demographic data and medical cost trends are necessary to render the calculations valid.**
 - **Contrary to its earlier position, in its September 2, 1992 ex parte AT&T now recognizes that it cannot pick and chose among various LEC actuarial assumptions.**
 - **Use of a consistent set of assumptions is necessary to obtain a reasonable quantification of the effects of SFAS 106.**
 - **However, AT&T now recommends that certain Ameritech actuarial assumptions be applied to each LEC, despite other differing LEC characteristics.**
- **Thus, the FCC should reject the individual LEC quantifications contained in Table 1 of the September 2, 1992 ex parte filed by AT&T.**

II. AT&T'S "MODIFIED" NERA METHODOLOGY

Contrary to its characterization, AT&T does not accept the NERA methodology and does much more than "modify" the NERA approach.

- **AT&T purports to accept the NERA methodology, including NERA's calculation of a 1.1% cost increase due to the incremental effects of SFAS 106 on U.S. firms.**

[NERA calculates 1.1% as the incremental increase in cost imposed by SFAS 106 (\$69B) divided by total GNP (\$6,260B).]

- **AT&T incorrectly applies the 1.1% cost rise calculated by NERA:**
 - **AT&T method assumes that the SFAS 106 cost increase is relevant to all firms in the U.S. economy.**
 - **NERA states that the 1.1% cost increase applies only to the cost-plus sector.**
 - **AT&T incorrectly translates a 1.1% cost increase into a 1.1% increase in prices for all firms in the U.S. economy.**
 - **NERA calculates the price increase as 0.12%.**
- **The fundamental thesis of the NERA Study is that a large number of firms in the U.S. economy have already incorporated the true economic costs of OPEBs into their pricing decisions.**
 - **Thus, for this large share of the U.S. economy, the increase in accounting costs represented by the implementation of SFAS 106 accounting will not be reflected in future prices.**
 - **AT&T states that it agrees with NERA that firms in nonregulated industries will not increase their prices as a result of the imposition of SFAS 106 accounting.**

- The calculations presented by AT&T in Table 2 in its September 2 ex parte, however, do not reflect this agreement. In fact, the AT&T calculations presume exactly the opposite – that all firms will increase prices – and by an incorrect amount – 1.1%.
- Under the guise of agreeing with the NERA approach, AT&T has misapplied the entire NERA approach.

AT&T inappropriately inflated its estimated effect on GNP-PI by a flawed calculation relating to incorporation of the government sector.

- AT&T inflates the 1.1% NERA cost estimate (which AT&T applied incorrectly, as discussed above) further based on its incorrect treatment of the government sector.

[AT&T divides the 1.1% NERA cost estimate by 89.4% (taken from the Godwins Report, p. 10) to arrive at a 1.23% estimate.]

- AT&T incorrectly assumes that the government OPEB costs:
 - are identical to those in the nongovernment sector;**
 - and will be reflected in prices in the government sector at the same time as SFAS 106 is implemented for the regulated sector.**
- The calculation of the incremental effects of SFAS 106 have properly treated the government sector.
 - Accounting for the retiree nonpension benefits of government employees is not affected by the implementation of SFAS 106.

- Thus, calculations of the incremental effect of SFAS 106 that exclude government employment from the base of employees affected by the accounting change are correct.
- Sensitivity analysis in the Godwins study disproves the magnitude of effect that AT&T attributes to this concern.

Based on our examination of the AT&T calculations, AT&T has made adjustments to the NERA cost estimates that:

- cannot be supported and must be rejected; and
- have been made for the sole purpose of attempting to reduce the LEC revenue requirement estimates.

III. AT&T STATEMENTS REGARDING FUNDING

AT&T has provided no credible rationale for tying exogenous cost treatment to funding decisions.

- AT&T's ex parte added nothing new to the record regarding the funding issue.
- Requests that exogenous cost treatment be tied to funding decisions should be rejected.